



NEW ZEALAND COUNCIL OF TRADE UNIONS

Te Kauae Kaimahi

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This is the last Bulletin for 2016. The next issue will be published on Tuesday, 31 January 2017. After a year of both sadness and celebration, best wishes to readers for a good break: come back refreshed.

Commentary

Prices are an inequality issue

Summary

We most often think about inequality in terms of income or wealth, but what if some people also experience the cost of living differently? What if the costs that one household faces go up more quickly than the costs of another household? That could add to – or subtract from – income inequality. Until now we have in practice assumed that everyone faced the same average rise in living costs – for more than a century we have used the familiar Consumer Price Index (CPI) as the standard measure of rises in the cost of living.

It turns out that in recent years at least, it has not been a particularly good measure. Earlier this month, Statistics New Zealand launched a new series of price indexes: the Household Living-Cost Price Indexes (HLPs). They tell us a lot more about inequalities in the cost of living.

They show prices experienced by households of a number of different types: five different levels of income, five different levels of spending, beneficiary, Māori and superannuitant households. Because each type of household spends in different proportions they experience different costs of living. For example, in the lowest income and lowest expenditure households, out of every \$100 spent, twice as much goes on rent, energy and other housing expenses than in the highest income and expenditure households. In the opposite direction, the highest income and expenditure households spend two to three times as much on interest payments and half as much again on transport (mainly due to buying new cars and air travel) out of every \$100 than the lowest income households.

It makes a lot of difference. Since June 2008, when the HLPs start, prices have hit low income, low spending, beneficiary and superannuitant households much harder than higher income, higher spending households, and harder than the CPI showed. The lowest spending households saw living costs rise by 18.2 percent, twice that for the highest spending group which saw costs rise 9.1 percent. CPI rose over the same period by 13.9 percent.

Unions should consider using these new indexes in pay negotiations.

We most often think about inequality in terms of income or wealth, and there is a lot written about that. But what if some people also experience the cost of living differently? What if some costs that one household faces go up more quickly than the costs of another household? That could add to – or subtract from – inequality due to income. Until now we have in practice assumed that everyone faced the same average rise in living costs – for more than a century we have used the familiar Consumer Price Index (CPI) as the standard measure of rises in the cost of living.

It turns out that in recent years at least, it has not been a particularly good measure. Earlier this month, Statistics New Zealand launched a new series of price indexes: the [Household Living-Cost Price Indexes \(HLPis\)](#). They tell us a lot more about inequalities in the cost of living. While the new series will be coming out every three months from now on (on a different date from the CPI), Statistics New Zealand backdated them to 2008. They show that indeed there are very significant differences in cost of living for different types of household: low income, low spending, beneficiary and Superannuitant households all have experienced much higher inflation since 2008 than high income and high spending households.

In this commentary I introduce these series, explain why different types of households might experience different costs of living, what the new series are and how to understand them. When negotiating pay, unions would be well advised to consider the new information available in these series, and when the series were launched I distributed a revised version of our Real Wage Calculator that included the new series as well as the CPI to make that job easier.

Which household types do the new series provide price indexes for?

The CPI provides a price index for an “average” household. The HLPis however cover the following household types:

- All households
- Beneficiary households (where the highest-income recipient receives a ‘main benefit’)
- Expenditure quintile 1 (lowest expenditure) through to Expenditure quintile 5 (highest expenditure)
- Income quintile 1 (lowest income) through to Income quintile 5 (highest income)
- Māori households (where at least one member reports being Māori)
- Superannuitant households (where the highest-income recipient receives a New Zealand government pension)

Quintile: List all the households in order from lowest to highest income (or expenditure). Divide them into five groups. These are “quintiles”. The lowest income (or expenditure) quintile is called quintile 1, then quintile 2 and so on to the highest,

Expenditure and income are calculated in a way that adjusts for the fact that a household with more people in it will have lower costs per person than a smaller household. This is because the larger household can spread the costs of some things, particularly housing, among all members of the household. A one-person household with an income of \$40,000 is likely to be much better off than a 4-person household with the same income. This is done by a process which standardises each household to a one-adult household so they can be compared – a process called “equivalisation”, producing “equivalised incomes” (or expenditures). It also takes into account lower costs for children.

At the end of this commentary is a table and discussion of some facts Statistics New Zealand provides about the different household types, and compares incomes and equivalised incomes.

You may find the definition of a “Māori household” odd – it only needs one person in it to identify as Māori. This is the definition used by Te Puni Kōkiri. We consulted with the CTU Rūnanga on this and they didn’t like it much either. The truth is that ethnicity is a characteristic of an individual not a household, so any definition of a “Māori household” is going to have problems. If the definition had been a household where *all* members identify as Māori it would have halved the number of ‘Māori’ households,

significantly reduced their median income, and shown greater increases in living costs – but would have led to less accurate estimates because of the smaller population size.

A Pacific Peoples household index was considered but wasn't considered feasible because the relatively small number of households would mean the index was not sufficiently reliable.

How are they different from the CPI?

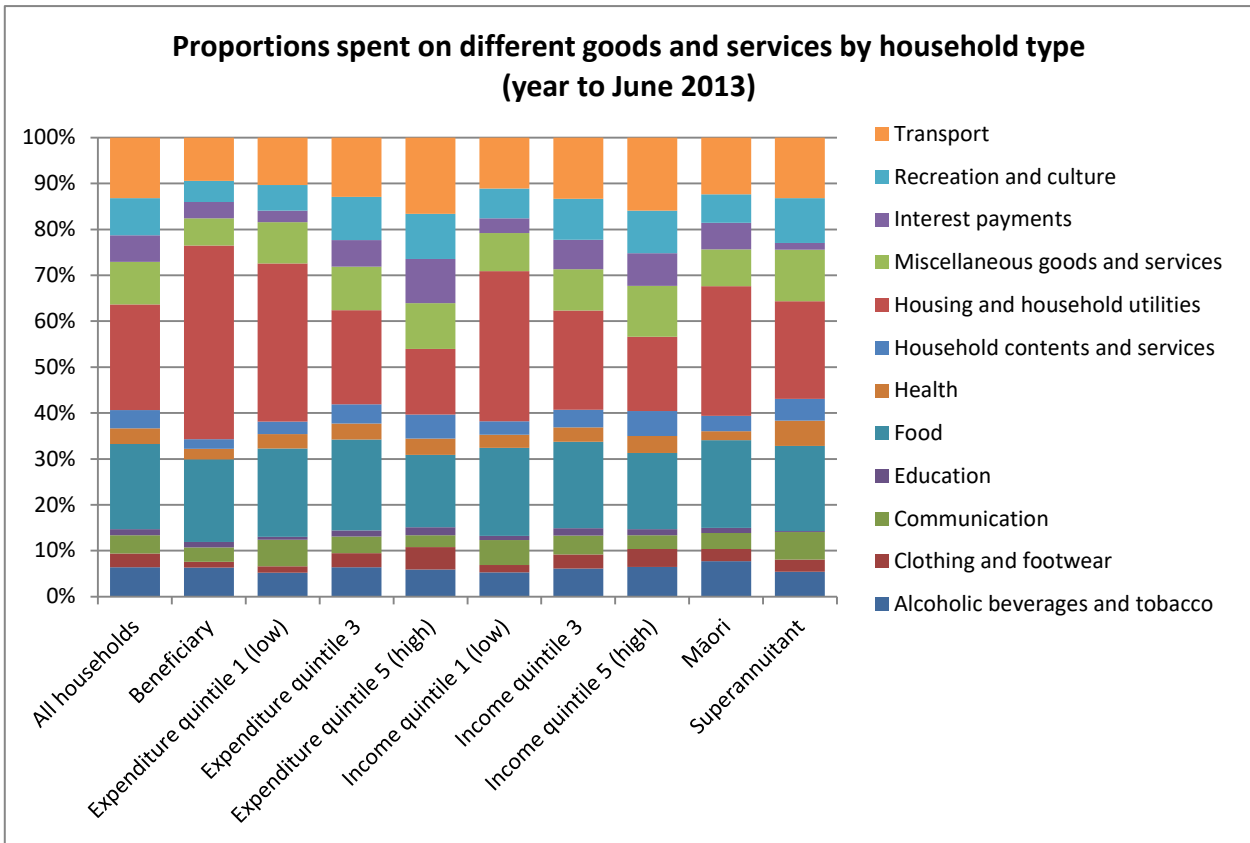
The way in which the new indexes are compiled is different from the CPI in some important ways which means the CPI is not directly comparable to them. The single most important difference is that since 1999, the CPI became a victim of monetarism and excluded interest payments because its main function was seen to be a measure of the Reserve Bank's inflation target and not the cost of living. The HLPis correct that and reinstate interest payments. They also weight them to reflect increasing house prices, but the cost of new housing is no longer included in them, and they still do not fully reflect house price inflation which is a big problem at times like these. However on the whole they reflect living costs better than the CPI. The HLPis also include full insurance premiums – the CPI included only the “cost of providing the insurance service”, the insurance companies' margin between premiums paid and claims paid out. There are other important technical differences which make the indexes more representative of household costs. These are outlined in a [background paper](#) on the Statistics New Zealand web site.

How come different households can face different price rises?

By and large, apart from some regional variations and inability to get to lower cost retailers for mobility reasons, all households face similar prices for the individual goods and services they buy. The main reason that households face different increases in the cost of what they buy overall is that they buy different proportions of them. A price index is based on a 'basket' of about 700 goods and services that a 'typical' household purchases. Statistics New Zealand finds out what people buy through a three-yearly Household Economic Survey which also surveys people's incomes and other information. The CPI is based on the proportion of each good or service that the 'average' household buys, and multiplies each proportion by the price for that product that Statistics New Zealand finds in a survey it does at least every three months. So a price index can vary because people buy proportionately more or less of something, as well as because of price changes.

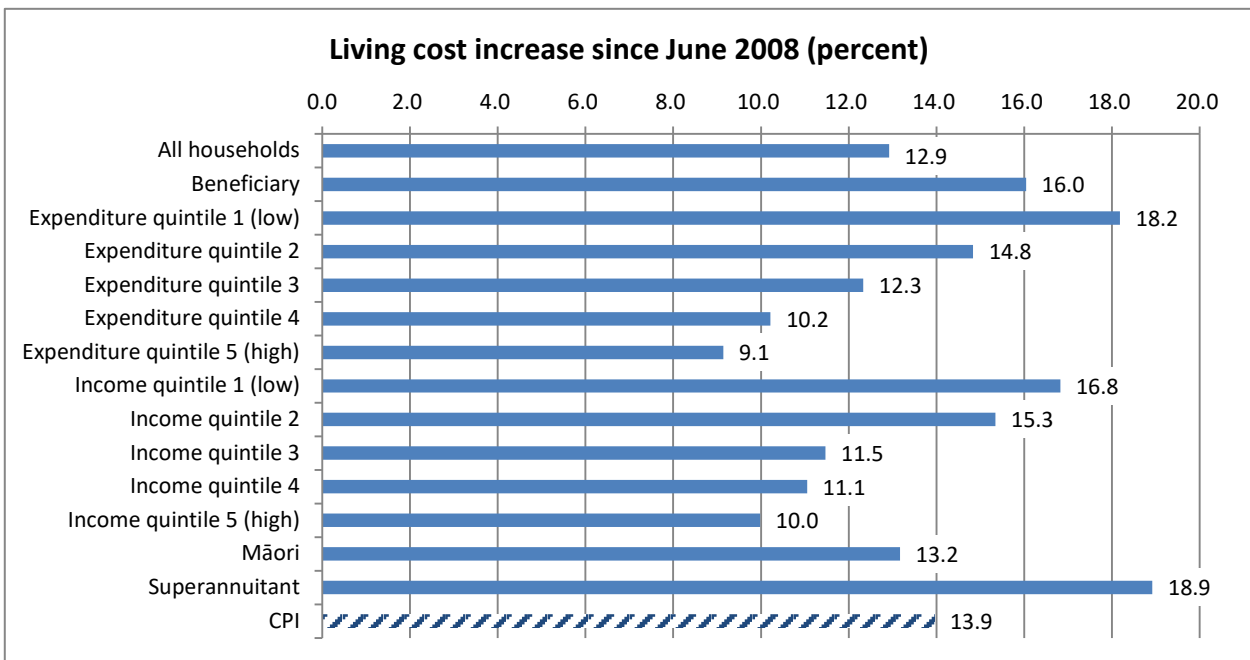
Lower income households tend to spend a bigger proportion than average on housing for example. Higher income households tend to spend a bigger proportion on interest because banks are willing to lend them mortgages. There are many other differences, shown in the graph below.

It shows that in lowest income and low expenditure households, out of every \$100 spent, twice as much goes on rent, energy and other housing expenses (“Housing and household utilities” in the graph) than the highest income and expenditure households. In the opposite direction, the highest income and expenditure households spend two to three times as much on interest payments and half as much again on transport (mainly due to buying new cars and air travel) out of every \$100 than the lowest income households. Beneficiary households spend \$42 out of every \$100 on housing, while superannuitants spend half that, and almost nothing on interest payments. Compared to “All households”, Māori households (as defined) spend somewhat more on housing (\$28 compared to \$23 out of every \$100) but on the whole their spending patterns are not a great deal different.



So what difference does it make to look at different household types?

The short answer is: a lot. Since June 2008, when the HLPs start, prices have hit low income, low spending, beneficiary and superannuitant households much harder than higher income, higher spending households, and harder than the CPI showed. The next graph tells the story.



While an 'average' household ("All households" above) experienced an increase in living costs of 12.9 percent between June 2008 and September 2016 measured, superannuitants saw living costs rise by 18.9 percent – almost half as much again. The lowest spending households (expenditure quintile 1) saw

living costs rise by almost as much as superannuitants – 18.2 percent – and the lowest income households (income quintile 1) by 16.8 percent which was similar to the rise that beneficiaries faced: 16.0 percent. The contrast between the lowest and highest spending households is even greater: 18.2 percent rise in living costs compared to half that – 9.1 percent. Similarly the lowest income households' living cost rise of 16.8 percent was two-thirds higher than that of the highest income households' rise of 10.0 percent. CPI rose over the same period by 13.9 percent, not greatly different from the All households HLPI.

Though the low income and expenditure households have faced significantly higher price increases than high income and expenditure households over the period since June 2008, that is not necessarily always going to be true. Over that period a big reason was falling interest rates which benefit higher income households much more because they spend more on interest, but interest rates won't fall for ever. The rise in housing costs and electricity prices have been another big contributor.

These effects wax and wane. For example, while over the last year (to September 2016) the same inequality against low income/expenditure households showed (the lowest spending households saw living costs rise 0.6 percent while the highest income group saw them *fall* by 0.3 percent), over the previous year to September 2015, it was reversed: high income and high expenditure households faced higher price rises (1.0 percent and 1.1 percent) than low income and low expenditure households (0.5 percent and 0.4 percent). Only experience will tell us how often and for how long such reversals happen. Because of the importance of housing and the tendency for its costs to rise faster than for other goods and services, it is likely that low income/expenditure households often do face faster rises in living costs.

Which one should I use?

For pay negotiations the obvious HLPs to choose from are those by income or expenditure quintile. It may be difficult to relate the quintiles precisely to your members' household incomes but the table at the end of this commentary (note that it is for the year to June 2013) gives some guide. The employer may have a preference for CPI for whatever reason – and you may want to get more experience of the HLPs before starting to use them – so you can't forget the CPI.

You may wonder whether it is better to use the HLPs for different expenditure households or the HLPs for the different income households. There is some international thinking that expenditure is a better measure of living standards than income over a person's lifetime. There is certainly truth in this but its sustainability relies on people borrowing when their incomes are inadequate and repaying the borrowing when their incomes rise. Over a lifetime many people do that, but in terms of living standards it is an economic view that may not represent the reality that people experience. Firstly, households which are forced to borrow to make ends meet may not feel that they are maintaining their living standards: it is likely to create increased stress and concerns about the future. Secondly, not everyone does manage to repay their borrowing. More and more people are likely to be still paying off mortgages in their retirement (11.6 percent of superannuitant households were in the year to June 2013). You should also bear in mind that the definition of "expenditure" used does not include repayments of the principal of mortgages and other borrowing (it does include interest) which would be a major expense for many households, and also includes neither spending while travelling overseas nor gambling. So many people may still feel it doesn't fully represent what they have to spend out of their pay each week.

The income and expenditure quintiles have less overlap than you might expect: for example Statistics New Zealand say that "about 61 percent of households classified to the lowest income quintile were

also classified to the lowest expenditure quintile”. So there is some correlation (56 percent overall), but it is nowhere near total. Statistics New Zealand say “the relatively low correlations are likely to reflect both irregular annual income and irregular annual expenditure (compared with household income and expenditure over a longer timespan).” This is related to the point about borrowing I made in the previous paragraph. It may also reflect the fact that some payments are not included in expenditure.

In the end you will need to make a judgement. The new Real Wage Calculator will help you compare the effects of the different indexes.

Bill Rosenberg

Facts about different household types (year to June 2013)

	Number of households	Median income	Equivalised median income	Median expenditure	Equivalised median expenditure	Proportion owning own home (%)		Average people per household	Average age
						Without mortgage	With mortgage		
All households	1,639,405	57,359	33,426	49,330	29,683	66.5	33.7	2.6	37.0
Beneficiary	186,134	26,569	17,706	27,348	17,893	24.6	14.5	2.5	27.3
Expenditure quintile 1 (low)	327,145	30,138	19,171	19,997	13,678	54.9	12.7	2.6	38.5
Expenditure quintile 2	328,033	42,898	25,743	35,822	21,961	58.4	24.3	2.7	35.7
Expenditure quintile 3	328,959	60,890	33,139	49,330	29,706	66.5	34.4	2.8	36.4
Expenditure quintile 4	327,692	80,597	45,599	66,519	39,787	70.0	42.1	2.6	36.5
Expenditure quintile 5 (high)	327,576	97,676	60,056	97,823	56,910	82.9	55.0	2.5	37.9
Income quintile 1 (low)	328,349	22,822	17,168	25,809	17,555	52.1	16.0	2.4	37.4
Income quintile 2	327,432	41,107	24,162	38,498	22,743	58.2	25.7	2.9	34.2
Income quintile 3	327,566	58,007	33,426	52,941	30,133	67.1	36.2	2.8	34.8
Income quintile 4	328,158	78,889	47,882	65,874	38,147	72.5	44.4	2.6	38.2
Income quintile 5 (high)	327,900	122,881	72,233	80,806	49,571	82.8	46.1	2.4	41.0
Māori	287,053	56,765	28,428	43,582	24,850	44.6	29.6	3.1	30.2
Superannuitant	357,748	33,168	25,404	29,328	23,456	88.1	11.6	1.7	68.8

Across all households, the median annual income is \$57,359, with an average of 2.6 people per household and equivalised median income of \$33,426 (that is, a similar living standard to a single adult with an income of \$33,426). The average age is 37.0 years. Two-thirds (66.0 percent) of households own their home, and one third (33.7 percent) own their home but have a mortgage. Their median expenditure is \$49,330. You might wonder why that is so much less than their \$57,359 income (I did). Surely New Zealanders don't have that great a saving record? I haven't had a completely satisfactory explanation for this, but part of the answer, which is important to bear in mind, is that the definition of "expenditure" used does not include repayments of the principal of mortgages and other borrowing (it does include interest) which would be a major expense for many households, and also includes neither spending while travelling overseas nor gambling.

Both beneficiary and Māori households have much lower average ages (27.3 and 30.2 years respectively) and home ownership (24.6 and 44.6 percent respectively). On the other hand, as would be expected, superannuitant households have much higher average age (68.8 years) and home ownership rate (88.1 percent) as well as a lower proportion with mortgages (11.6 percent). All the expenditure and income quintile households have remarkably similar household sizes and average ages, though the highest income quintile averages 41.0 years, but home ownership rises as income or expenditure goes up, as does the proportion of households with mortgages.

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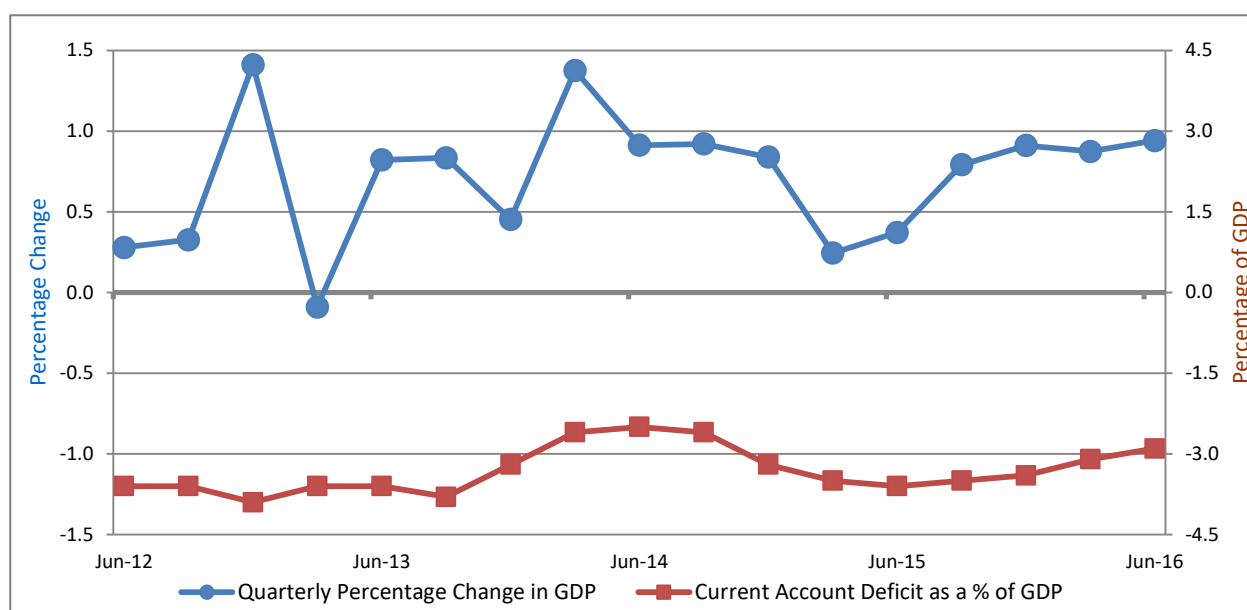
A ★ indicates information that has been updated since the last bulletin.

Forecast

- This [NZIER consensus forecast](#) was released on 12 September 2016.

Annual Percentage Change (March Year)	2016-17	2017-18	2018-19	2019-20
GDP	3.2	3.0	2.5	2.3
CPI	1.1	1.8	1.9	1.9
Private Sector average wage	2.2	2.5	2.8	2.6
Employment	3.2	2.2	1.7	1.4
Unemployment rate	5.0	4.7	4.8	4.9

Economy



- Growth in New Zealand's economy continued steadily in the June 2016 quarter, with [Gross Domestic Product](#) rising by 0.9 percent, compared to a revised 0.9 percent in both the March 2016 and December 2015 quarters. Average growth for the year ended June 2016 was 2.8 percent (and 3.6 percent increase between June quarters). However GDP is barely keeping up with the rapidly growing population: GDP per person grew only 0.5 percent in the June quarter, and 0.7 percent over the year. Real gross national disposable income per capita, which takes into account the income that goes to overseas investors and the falling prices for some of our main exports, fell by 0.1 percent over the June quarter and rose only 0.5 percent over the year to June. I estimate¹ that production per hour worked in the economy fell by 0.9 percent compared to the same period last year and fell 0.4 percent in the June quarter, indicating falling productivity which is bad for future wage growth. Business investment growth in the three months (1.7 percent) was similar to the March quarter (1.8 percent) though slower than GDP growth compared to the same quarter last year (3.3 percent). Investment in housing rocketed 6.0 percent in the quarter and 14.5 percent from the same quarter last year. Household consumption growth was also strong, rising 1.9 percent in the quarter compared to 0.4 percent in the previous quarter and strong for the year, up 3.9 percent. Inflation is stronger in the economy as a whole than CPI with the GDP deflator (a price index for expenditure on the economy's production) rising 0.9 percent in the June quarter and 1.5 percent in the March quarter after six months fall, with a total rise of 1.3 percent for the year.
- By industry, the growth in the latest quarter was mainly due to strong growth in Construction (up 5.0 percent) and Rental, hiring, and real estate services (up 1.3 percent) which together contributed 0.5 of the 0.9 percentage points rise in the quarter. However the influence of housing showed up boosting other areas of the economy such as in Non-metallic Mineral Product Manufacturing (up 11.3 percent) which includes glass, cement and concrete and other construction materials, and Furniture and other manufacturing (up 18.2 percent after falling 11.9 percent in the previous quarter). Increases in other industries were led by Retail Trade and Accommodation (up 1.9 percent), Arts, Recreation and Other Services (up 1.8 percent), and Agriculture, Forestry and Fishing (up 1.4 percent). However there were strong falls during the quarter in Mining (down 2.5 percent), and Public Administration and Safety (down 1.2 percent), while Electricity, Gas, Water and Waste Services; Transport, Postal, and Warehousing; and Information Media and Telecommunications each fell 0.3 percent. Manufacturing activity rose by a relatively moderate 0.8 percent in the quarter (and 2.1 percent in the year) led by a recovery in the largest sector Food, Beverage and Tobacco Manufacturing which rose 1.3 percent after falling for six months, Printing (up 5.8 percent), and Metal Product manufacturing (up 2.8 percent) in addition to the subsectors above. Offsetting those were Textile, Leather, Clothing and Footwear manufacturing (down 5.2 percent), Petroleum, Chemical, Polymer and Rubber Product manufacturing (down 3.6 percent) and Transport Equipment, Machinery and Equipment manufacturing (down 2.2 percent).
- New Zealand recorded a [Current Account](#) deficit of \$1.8 billion in seasonally adjusted terms for the June 2016 quarter (but an actual deficit of \$0.9 billion) following a revised \$1.6 billion deficit for the March 2016 quarter. There was another deficit in the goods trade (\$452 million, seasonally

¹ Because of the changes to the Household Labour Force Survey, there is a break in the hours-worked series in June. I estimated the increase for June using the historical relationship with hours paid from the more limited Quarterly Employment Survey.

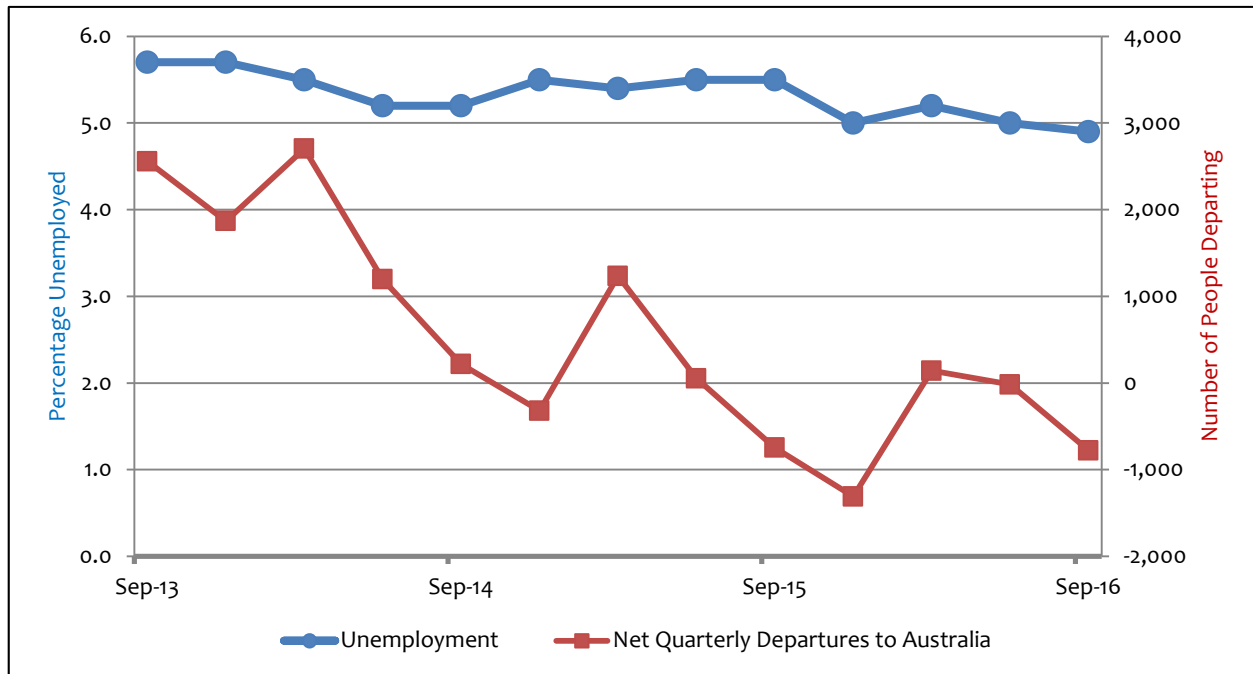
adjusted, following a \$523 million deficit in the March quarter) and a surplus of \$582 million in goods and services (\$655 million in March), while the deficit on primary income (mainly payments to overseas investors) rose to \$2.0 billion from \$1.9 billion in March (not seasonally adjusted). For the year to June 2016, the current account deficit was \$7.4 billion or 2.9 percent of GDP compared to a \$7.8 billion deficit in the year to March (3.1 percent of GDP). The deficit on investment income was \$8.6 billion for the year. During the year to March, foreign direct investors (those with a degree of control of the companies they hold shares in) were paid dividends at the rate of 10.6 percent after tax, compared to 11.8 percent the year before. By comparison they received a rate of return of only 2.6 percent after tax on debt owed to them by their companies. Portfolio investors received returns of 4.2 percent on shares and 2.0 percent on debt.

- The country's [Net International Liabilities](#) were \$163.3 billion at the end of June 2016, up from \$159.0 billion at the end of March and \$149.4 billion a year before. The June net liabilities were equivalent to 64.9 percent of GDP, compared to 63.9 percent in March and 61.8 percent a year before. They would take 2.31 years of goods and services exports to pay off, up from 2.20 years a year before. The rise in liabilities was due to a \$1.5 billion net inflow of investment adding to \$2.8 billion in market value changes (led by a \$3.4 billion change in market price) without which the net liabilities would have been \$160.5 billion. New Zealand's international debt was \$296.0 billion (117.6 percent of GDP), of which 28.9 percent is due within 12 months, compared to \$151.3 billion in financial assets (other than shares; 60.1 percent of GDP), leaving a net debt of \$144.6 billion (57.4 percent of GDP). Of the net debt, \$11.2 billion was owed by the government including the Reserve Bank (equivalent to 4.4 percent of GDP and down from \$11.6 billion in March) and \$102.3 billion by the banks (40.6 percent of GDP), which owed \$159.8 billion gross. The banks owed \$74.7 billion to related parties, excluding derivatives. Total insurance claims owed by overseas reinsurers from the Canterbury earthquakes are estimated at \$20.2 billion, and at 30 June 2016, \$19.1 billion of these claims had been settled, leaving \$1.1 billion outstanding.
- ★ [Overseas Merchandise Trade](#) for the month of October saw exports of goods rise 2.2 percent from the same month last year while imports rose 0.6 percent. This created a trade deficit for the month of \$846 million or 21.7 percent of exports. There was a trade deficit for the year of \$3.3 billion or 6.8 percent of exports. In seasonally adjusted terms, exports rose 9.3 percent or \$363 million over the month (compared to a 0.7 percent rise the previous month) led by rises in Dairy products (up 9.3 percent or \$83 million), Meat (up 13.2 percent or \$56 million), Fruit (up 7.5 percent or \$20 million), and Wine (up 8.6 percent or \$11 million), offset by falls led by Crude oil (down 62.1 percent or \$38 million, not seasonally adjusted) and Seafood (down 15.6 percent or \$23 million). Seasonally adjusted imports rose 2.1 percent or \$93 million over the previous month, creating a trade deficit of \$313 million compared to a \$582 million deficit in the previous month. However the main types of imports fell led by Petroleum and products (not seasonally adjusted, down 24.1 percent or \$108 million), Mechanical machinery and equipment (not seasonally adjusted, down 6.8 percent or \$43 million), Textiles (down 7.5 percent or \$17 million), and Optical, medical and measuring equipment (down 8.7 percent or \$12 million).
- ★ The [Performance of Manufacturing Index](#)¹ for October 2016 was 55.2, a fall from 57.5 in the previous month. The employment sub-index was at 53.8, a rise from 50.8 in the previous month.
- ★ The [Performance of Services Index](#)¹ for October 2016 was 56.3, a rise from 54.2 in the previous month. The employment sub-index rose to 54.7 from 51.6 in the previous month.

- The [Retail Trade Survey](#) for the three months to June 2016 showed retail sales rose 6.0 percent by volume and 5.5 percent by value compared with the same quarter a year ago. They rose 2.3 percent by volume and 2.2 percent by value in the quarter, seasonally adjusted. By value the fastest rises were in Non-store and commission retailing (which includes internet purchases) which was up 6.9 percent, Hardware, building, and garden supplies (up 5.9 percent), Pharmaceutical and other store-based retailing (up 4.9 percent), Food and Beverage services (up 3.6 percent), and Furniture, floor coverings, houseware, textiles (up 3.4 percent). There were falls in Recreational goods (down 2.9 percent), Accommodation (down 2.1 percent) and Fuel (down 0.7 percent). Supermarket and grocery stores, the largest single sector, rose 1.2 percent by value (up \$53 million).
- ★ On 10 November 2016 the Reserve Bank reduced the [Official Cash Rate \(OCR\)](#) to a new record low of 1.75 percent, down from 2.00 percent, where it had been since August. It indicated that the rate is unlikely to be lowered further unless there were unforeseen events, pointing a finger at those resulting from the “uncertain” international outlook. The Bank’s Governor said that the global economy was operating below capacity despite signs of improvement in some countries, and global inflation remains low. “Political uncertainty remains heightened and market volatility is elevated.” Despite record low interest rates in New Zealand, they are still significantly higher than other countries, keeping the New Zealand dollar “higher than is sustainable for balanced economic growth”. It also creates deflation (negative inflation) in tradeable goods and services (exports and those in competition with imports). He again called for a lower exchange rate. His description of factors supporting the domestic economy showed the weak structural basis for current economic growth: “Domestic growth is being supported by strong population growth, construction activity, tourism, and accommodative monetary policy. Recent dairy auctions have been positive, but uncertainty remains around future outcomes.” He is also of the view that “High net immigration is supporting growth in labour supply and limiting wage pressure.” The Bank’s data shows that in the year to September the working-age population rose by 2.8 percent, easily the highest rate since 2000 and probably in the last 25 years, made up of a natural increase of 1.1 percent and migration increase of 1.7 percent. House prices continue to worry the Bank, “posing concerns for financial stability”. The Governor is not confident the slowing of price growth in Auckland will continue while there are not enough houses. He expects CPI inflation, kept low by tradables deflation, to rise from December. RBNZ forecasts show tradeables inflation rising to over 3 percent from mid-2018 and total CPI inflation to 2.0 percent in December 2018. The next OCR announcement will be on 9 February 2017 and will include a Monetary Policy Statement.
- ★ According to [REINZ](#), the national median house price rose \$50,000 or 10.9 percent to \$510,000 in the year to October 2016 but fell 1 percent from \$515,000 the previous month. The Auckland median price rose 16.0 percent or \$119,750 over the year to a record of \$868,000 and rose 5 percent or \$43,000 on the previous month. Excluding Auckland the national median price rose \$30,175 to \$400,175 or 8.2 percent higher than a year before. It was up just \$175 or 0 percent on the previous month. As well as Auckland, three regions had record median prices: Northland (\$399,000, up 11 percent over the year), Waikato/Bay of Plenty (\$460,750, up 21 percent), and Southland (\$225,000, up 13 percent). Central Otago Lakes prices rose 42 percent over the year. There was a rise of 21.5 percent to 977 in the number of sales in the \$1 million plus range over the year and a fall of 3.7 percent to 1,749 in the \$600,000 to \$1 million range. However sales below that price level fell steeply, with those under \$400,000 now only 35.1 percent of sales compared to

40.6 percent a year ago, a 26.0 percent fall. Total sales were down 14.2 percent from 7,838 a year ago to 6,727 in October 2016.

Employment



Note: as described in the [September Bulletin](#), the release reported on below of **Household Labour Force Survey** statistics on employment and unemployment reflects a major revision of the survey that took effect from June 2016. The changes include the measurement of unemployment, whose values have been revised back to 2007. Other employment statistics, including numbers employed and hours worked, cannot be accurately compared between June 2016 and previous months.

- ★ According to the [Household Labour Force Survey \(HLFS\)](#) the unemployment rate in the September 2016 quarter fell to 4.9 percent or 128,000 people, compared to 5.0 percent in June (131,000 people), seasonally adjusted. It is still more than half as much again than the 3.3 percent it was in December 2007. The unemployed were not the only people looking for work: the new statistics include a measure called “underutilisation” which includes the officially unemployed as above, people looking for work who are not immediately available or have not looked sufficiently actively to be classed as officially unemployed, plus people in part time work who want more hours (“underemployed”). In the September quarter there were a total of 329,000 people looking for work classed as “underutilised”, or 12.2 percent of the labour force extended to include these people. Of them, 105,300 were underemployed, 125,800 were officially unemployed, and 97,900 were additional jobless people looking for work (these figures are not seasonally adjusted). The 12.2 percent underutilisation rate is down from 13.2 percent a year before but still considerably higher than in September 2007 when it was 8.8 percent. It is higher for women at 14.9 percent than for men (9.8 percent). Excluding the officially unemployed, the underutilisation rate is 7.5 percent. There are 43,500 unemployed people who have been out of work for more than 6 months. This is apparently a large increase from the 42,000 a year before but a change in the survey question could

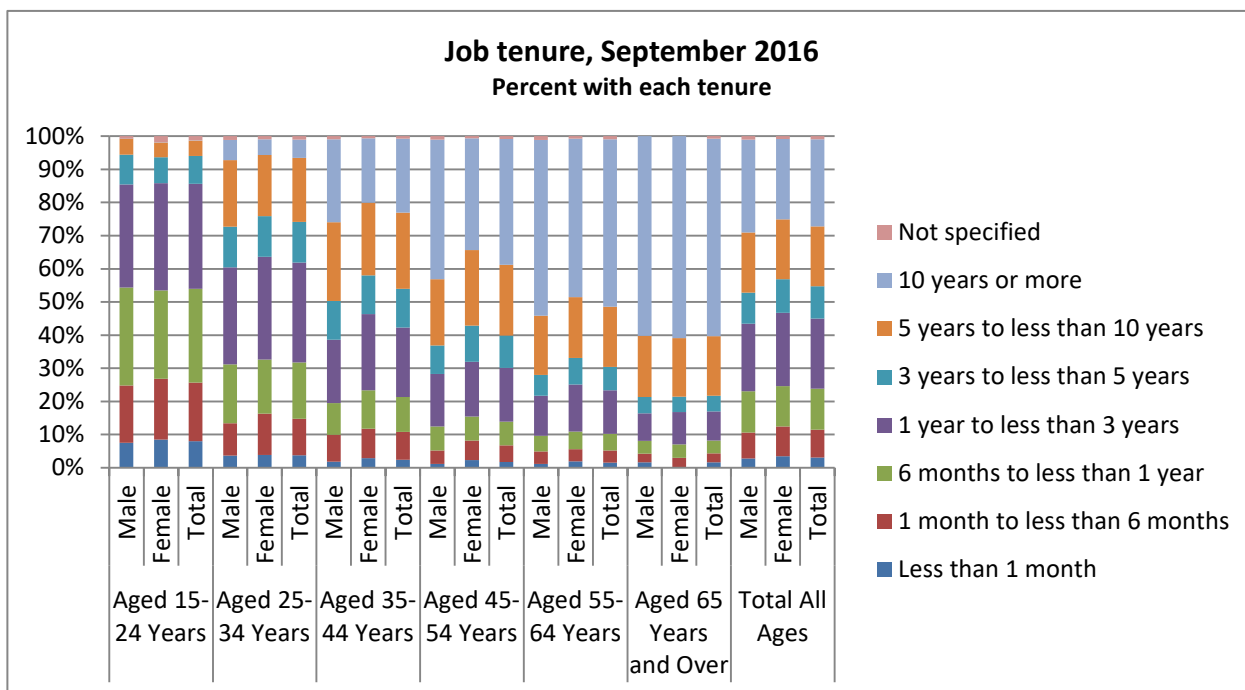
have contributed to this. This is 34.6 percent of the unemployed compared to 31.1 percent a year before, and has not been previously reached in a September quarter since 2000. Those out of work for more than a year are 14.6 percent of the unemployed compared to 11.3 percent a year before (again possibly affected by the changed survey question). Compared to OECD unemployment rates, New Zealand had 10th lowest (out of 34 countries), compared to 11th equal in June.

- ★ The number recorded as employed rose by 35,000 between the June and September 2016 quarters (seasonally adjusted). The recorded employment rate rose from 66.2 percent to 66.7 percent over the three months. Similarly the participation rate (the proportion of the working age population either in jobs or officially unemployed) rose from 69.7 percent to 70.1 percent, all in seasonally adjusted terms.
- ★ In the North Island, unemployment rates fell compared to a year ago in all but Taranaki, but none of the falls were statistically significant (that is, the error in the estimates of unemployment means it cannot be ruled out that the falls were in fact zero). In the North Island, Northland still has the highest unemployment at 7.6 percent while Waikato at 4.5 percent has the lowest. Auckland is at 5.3 percent and Wellington 4.6 percent. Gisborne/Hawkes Bay is at 6.5 percent. The South Island looks considerably better, with Tasman/Nelson/Marlborough/West Coast at 2.8 percent (down a statistically significant 2.2 percent from a year before), Canterbury at 3.9 percent, Otago at 3.7 percent and Southland at 5.3 percent.
- ★ By industry, the increase in employment of 17,700 since the June quarter was made up of both gains and losses. The biggest gains were of 10,400 in Education and Training, 8,400 both in Construction and in Arts, recreation, and other services, and 6,900 in Agriculture, forestry and fishing. The biggest losses were 8,300 in Manufacturing, and 4,500 in Financial and insurance services.
- ★ The seasonally adjusted female unemployment rate at 5.1 percent in September was higher than for men (4.6 percent), but both fell from the previous quarter (5.4 percent and 4.7 percent respectively). Māori unemployment fell from 12.1 percent in September 2015 to 10.6 percent in September 2016, and Pacific people's unemployment fell from 12.3 percent to 10.1 percent over the year.
- ★ **Youth unemployment** for 15-19 year olds was 19.3 percent in September, up from 18.6 percent in June, down from 20.1 percent a year before (note that these and the other statistics for the whole youth population are seasonally adjusted, but those for Māori and Pacific Peoples are not). For Māori in September 2016 the unemployment rate was 26.6 percent and for Pacific Peoples it was 31.1 percent. For 20-24 year olds youth unemployment was 9.1 percent, down from 9.4 percent in June and 10.9 percent a year before. For Māori in September 2016 it was 15.2 percent and for Pacific Peoples it was 11.1 percent. The proportion of 15-19 year olds "not in employment, education, or training" (the NEET rate) for 15-19 year olds was 7.1 percent, up from 6.9 percent in June and 6.7 percent a year before. For Māori in September 2016 the rate was 11.6 percent and for Pacific Peoples it was 11.2 percent. For 20-24 year olds the NEET rate was 14.7 percent, up from 14.3 percent in June but down from 14.9 percent a year before. For Māori in September 2016 the rate was 26.7 percent and for Pacific Peoples it was 19.3 percent. For the whole 15-24 year old group, unemployment was higher for those in education (14.1 percent) than those not in education

(11.6 percent). There were 74,000 people aged 15-24 years who were not in employment, education, or training (NEET), up from 71,000 in June and 71,000 a year before.

- ★ From the June quarter, the HLFS started surveying **union membership** and having a **collective employment agreement**. In the September 2016 quarter, total union membership was estimated at 375,400, a 1.0 percent fall from 379,300 in the June quarter. The membership is 18.7 percent of employees (or slightly higher if those who didn't know were discounted) compared to 19.1 percent in the previous quarter. Women make up 58.0 percent of the membership compared to 49.3 percent of all employees. As a result, the proportion of women employees who are in unions is higher than for men – 22.0 percent compared to 15.5 percent. There may be seasonal variations in union membership which are not yet apparent, so quarterly comparisons may not represent annual trends. Regarding coverage by a collective employment agreement, 19.5 percent of employees (391,800, which is larger than the estimated number of union members) said their employment agreement was a collective in September compared to 20.6 in June; 65.0 percent (1,305,100) said it was an individual agreement compared to 62.9 percent in June, and 7.9 percent or 158,600 said they had no agreement (which is illegal), compared to 8.6 percent in June. Perhaps after the publicity given to the large number of illegal employment arrangements when the June figures were announced some employers rapidly put those workers onto individual agreements. There is still a large number that flout the law however. A further 7.4 percent of employees didn't know what kind of employment agreement they had. Coverage by collective agreement was 16.6 percent for men and 22.5 percent for women. Again, these figures could be affected by seasonal variations in numbers.
- ★ For the first time in June the HLFS also reported on “**employment relationship**”. In the September 2016 quarter, 89.9 percent of employees (1,804,100) reported they were permanent, 4.8 percent casual (96,800), 2.9 percent fixed term (59,000), 1.3 percent seasonal (26,000), and 0.3 percent employed through a “temporary agency” (7,000). The proportion reporting they were permanent was up from 1,762,900 in June. Women were slightly less likely to be permanent employees: 88.4 percent of women were permanent compared to 91.4 percent of men. Instead, women were more likely to be casual (5.3 percent of them compared to 4.3 percent of men) or fixed term (4.0 percent of women compared to 1.9 percent of men). However somewhat more men were in seasonal work than women – 1.4 percent of men (14,200) compared to 1.2 percent of women (11,800). Of the temp agency employees, 3,400 were men and 3,700 women. Women make up 49.3 percent of employees. Employment relationships may have seasonal variations, so we should be cautious about seeing trends in quarterly comparisons. In addition, small differences may not be statistically significant.
- ★ For the first time in June the HLFS also reported on **duration of employment (job tenure)**. In the September quarter, 23.8 percent of those in the labour force (including the self-employed) had been in their jobs for less than a year. Another 30.9 percent had been in their job for at least a year but less than five years, so a majority had been in their jobs less than five years. A further 19.1 percent had been in their job for at least five but less than ten years, and 26.2 percent had been in their jobs for 10 years or more. These figures were similar to the June quarter, though they suggest a ‘hollowing out’ compared to the Surveys of Working Life carried out by Statistics New Zealand in 2008 and 2012 – the proportion in their jobs less than a year and those in their jobs more than 10 years have grown at the expense of the middle group. However all the surveys were at different

times of the year and there could be strong seasonal effects so the regular quarterly surveys will eventually shed much clearer light on this issue. In September, women appeared to be somewhat more likely to have been in their jobs for a shorter time than men. For example, 28.1 percent of men had been in their jobs for more than 10 years, but only 24.1 percent of women. But the differences may not be statistically significant. As would be expected, age is a significant factor as the graph below shows.



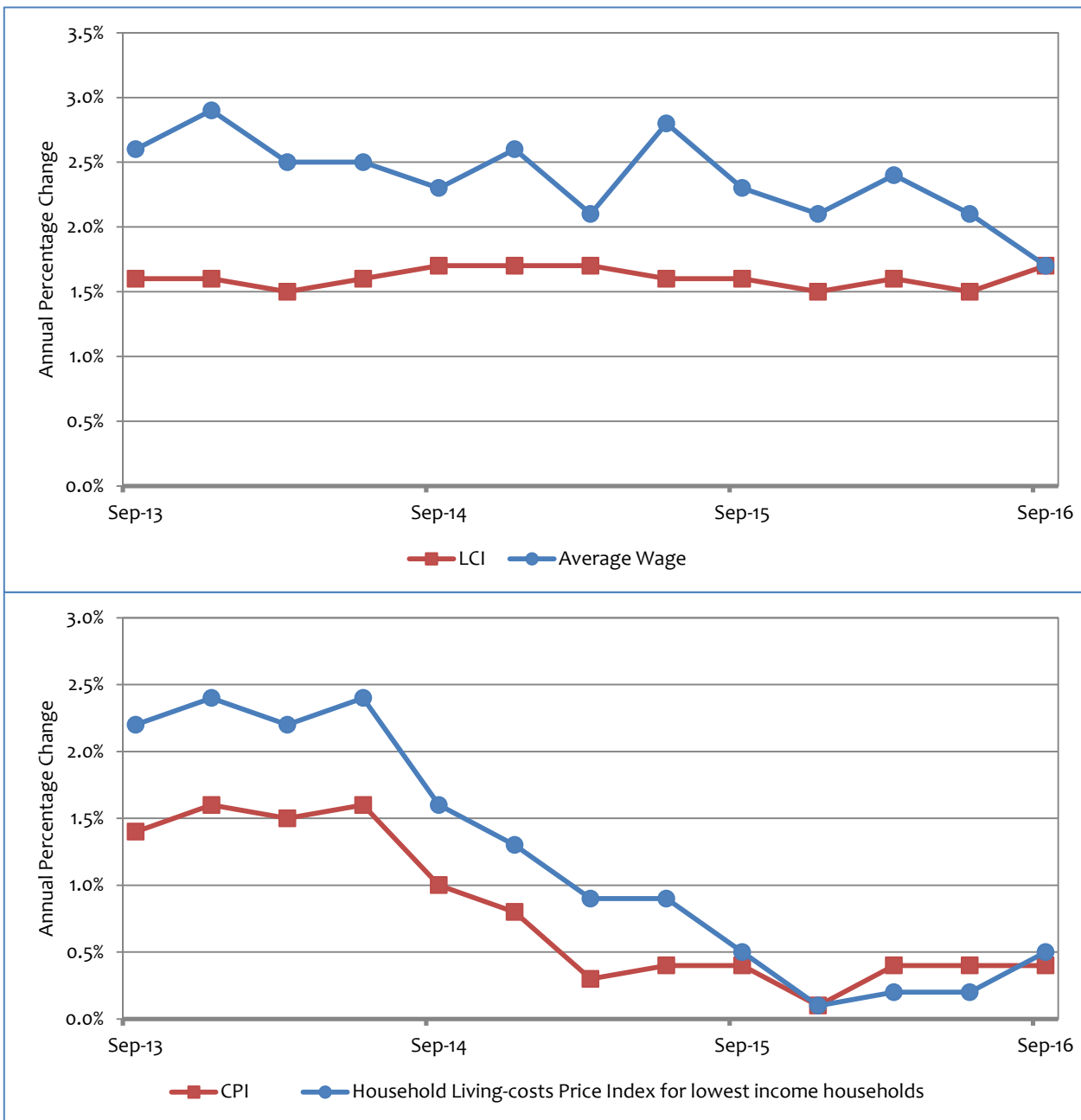
- The [Ministry of Social Development](#) reports that at the end of September 2016 there were 122,284 working age people on the Jobseeker benefit, 1,383 more than a year before and a rise of 4330 from 117,954 in June. At September 2016, 66,115 were classified as 'Work Ready', and 56,169 were classified as 'Health Condition or Disability'. A total of 283,875 were on 'main' benefits, 3,292 fewer than a year before but 3,698 higher than June. It was 19,502 more than in September 2007. Of the 42,706 benefits cancelled during the three months to September, 18,120 or 42.4 percent obtained work, 13.4 percent transferred to another benefit and 6.5 percent became full time students.

- ★ [Job Vacancies Online](#) for September 2016 showed the number of job vacancies rose by 2.2 percent in the month and rose 11.8 percent over the same month a year previously, in seasonally adjusted terms. Over the year, vacancies in Auckland rose 12.9 percent, Wellington 15.3 percent, rest of the North Island 19.0 percent, Canterbury just 0.6 percent and the rest of the South Island 10.3 percent. Over the month, vacancies rose in Auckland by 3.6 percent, Wellington by 6.2 percent, the rest of the North Island by 1.8 percent, Canterbury by 1.9 percent and the rest of the South Island by 0.7 percent. By industry, the fastest annual increases were in Hospitality and tourism (up 22.4 percent), Education and training (up 20.3 percent), Sales, retail and marketing (up 12.0 percent), and Healthcare and medical (up 11.6 percent). Over the month, increases ranged from 0.5 percent in Education and training to 4.9 percent in Information Technology (though this increased only 4.5 percent over the year). By occupation, the fastest rises over the year were for Labourers (up 26.0 percent), Managers (up 15.3 percent), Sales (up 13.5 percent) and Technicians and Trades workers (up 12.9 percent). Over the month, vacancies rose between 0.2 percent (for Community and

Personal Services) and 4.7 percent (for Machinery Drivers). All these are in seasonally adjusted terms.

★ [International Travel and Migration](#) statistics showed 11,694 permanent and long-term arrivals to New Zealand in October 2016 and 3,752 departures, a net gain of 7,942, compared to a gain of 7,614 in October last year. In the year to October 2016 there 126,117 permanent and long-term arrivals and 55,835 departures, a net gain of 70,282 compared to 62,477 in the year to October 2015. Other details are unavailable because of the earthquakes which severely disrupted Statistics New Zealand’s operations.

Wages and prices



★ The [Labour Cost Index](#) (LCI) for salary and ordinary time wage rates rose 0.5 percent in the three months to September 2016 and increased 1.7 percent in the year, ahead of the 0.4 percent increase in the CPI. It increased 0.7 percent in the public sector and 0.4 percent in the private sector in the three months to September. Over the year it rose 1.7 percent in the public sector and 1.6 percent in the private sector. During the year, 45 percent of jobs surveyed did not receive a pay rise, and 47 percent of private sector jobs got no rise. For the 55 percent of those jobs surveyed which received an increase in their salary or wage rate during the year, the median increase was 2.3 percent and the average increase was 3.1 percent. For those jobs that received increases, the median increase in the public sector was 2.0 percent and in the private sector 2.5 percent; the average increase in the public sector was 2.5 percent and in the private sector 3.2 percent. We estimate that jobs on collective employment agreements were 2.2 times as likely to get a pay rise as those who were not, and are more likely to get a pay rise of any size ranging from less than 2 percent to 5 percent but are 10 percent less likely to get one of more than 5 percent. Only 45 percent of jobs that were not on a collective got a pay rise during the year whereas the Centre for Labour, Employment and Work reports 99 percent of those on a collective got a pay rise. In the construction industry, salary and ordinary time wage rates in Canterbury are rising considerably more slowly than in the rest of the country: 0.3 percent in the quarter in Canterbury but 0.6 percent in the rest of the country; and over the year to September, 1.1 percent in Canterbury compared to 2.3 percent elsewhere. For those getting a rise, Canterbury wage rates rose 3.3 percent in the year compared to 4.2 percent elsewhere.

★ The [Quarterly Employment Survey](#) for the three months to September 2016 found the average hourly wage for ordinary-time work was \$29.78, up 0.5 percent on the previous quarter and up 1.7 percent over the year (the lowest increase since 2010 when the country was just coming out of recession). Female workers (at \$27.56) earned 13.0 percent less than male workers (at \$33.57) for ordinary time hourly earnings. The average ordinary-time wage was \$27.81 in the private sector (up 0.3 percent in the quarter and up 1.6 percent in the year) and \$37.45 in the public sector (up 1.4 percent in the quarter, after a 0.8 percent fall in the previous quarter, and up 3.0 percent in the year).

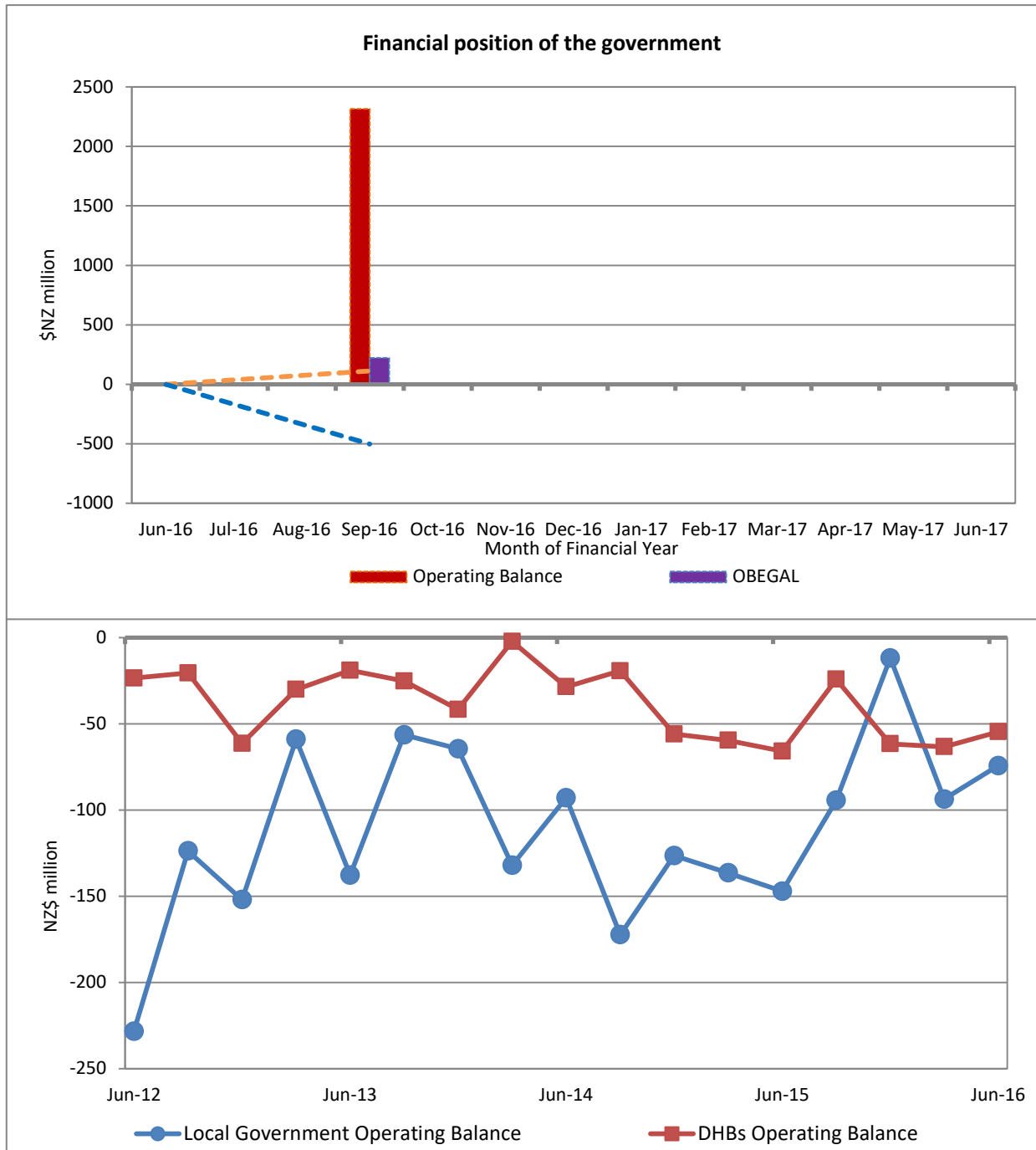
★ [Note: Statistics New Zealand issued a correction to the September Consumer Price Index on 7 November, too late for the October *CTU Economic Bulletin*. The following shows corrections resulting from that in red].

The [Consumer Price Index](#) (CPI) rose **0.3 percent** in the September 2016 quarter compared with the June quarter, and increased **0.4 percent** for the year to September. For the quarter, the largest upward influences were Housing and household utilities (up 1.1 percent and contributing **85.1 percent, or almost the total rise**, mainly due to the cost of new housing, which rose 2.0 percent, and local authority rates, up 3.0 percent), Household contents and services group (up 2.3 percent but contributing **32.3 percent, or almost one-third of the rise** mainly due to rising costs of furniture and furnishings, up 3.2 percent, and **major household appliances, up 5.1 percent**), and Food (up only 0.4 percent but contributing **23.9 percent or almost a quarter of the total rise** mainly due to a 16.0 percent rise in vegetable prices though offset by falls in many other food prices led by Fruit, down 10.7 percent). These rises were substantially offset by falls led by Transport (**down 1.9 percent contributing a reduction of 77.3 percent or three-quarters of the total rise**, mainly due to “Other private transport services” which fell by **13.7 percent** influenced by lower vehicle relicensing fees, and petrol which fell by 1.7 percent). In seasonally adjusted terms, the CPI **rose 0.1 percent**

from June, Food fell 0.5 percent, Alcoholic beverages and tobacco rose 0.6 percent, Clothing and footwear fell 0.1 percent, Housing and household utilities rose 0.8 percent, Communications fell 0.4 percent, Recreation and culture fell 0.2 percent, and Education rose 0.9 percent. Inflation in Canterbury for the year was **0.0 percent** but was **0.4 percent** in the rest of the South Island. In Auckland prices rose **0.3 percent**, Wellington **0.5 percent** and 0.7 percent in the North Island other than Auckland and Wellington. Auckland's housing costs rose 3.8 percent over the year, the fastest in the country; Wellington's at 2.6 percent, Canterbury's at 2.3 percent and rest of the South Island at 2.6 percent rose slowest, with the national average movement of 3.2 percent exceeded only by Auckland and the North Island (outside Auckland and Wellington) which rose 3.3 percent.

- ★ In November, Statistics New Zealand published its first quarterly release of several new price series, The [Household Living-costs Price Indexes](#) (HLPis). These show price increase like the CPI (above) but are designed to be better at showing the costs faced by households, and to show the different costs faced by different types of households. There is a total of fourteen indexes: for “all households”, Beneficiary households, Māori households, Superannuitant households, five for households ranked by income (five “income quintiles”), and five for households ranked by expenditure (“expenditure quintiles”). The incomes and expenditures are calculated to take account of household size and composition (“equivalised”). They are not strictly comparable to the CPI because they used different a methodology. See the [commentary](#) in this Bulletin for more detail. The September release shows that over the year to September, the All households HLPI index rose 0.1 percent, the Beneficiary households index rose 0.8 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.4 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.5 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.0 percent, quintile 4 rose 0.0 percent, and quintile 5 fell 0.2 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.6 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.1 percent, quintile 4 fell 0.1 percent, and quintile 5 fell 0.3 percent. Over the September quarter, the All households HLPI index rose 0.3 percent, the Beneficiary households index rose 0.2 percent, the Māori households index rose 0.2 percent, and the Superannuitant households index rose 0.3 percent. By income quintile, the index for the lowest income households (quintile 1) rose 0.3 percent, quintile 2 rose 0.4 percent, quintile 3 rose 0.2 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.4 percent. By expenditure quintile, the index for the lowest expenditure households (quintile 1) rose 0.2 percent, quintile 2 rose 0.3 percent, quintile 3 rose 0.4 percent, quintile 4 rose 0.3 percent, and quintile 5 rose 0.4 percent.
- ★ The [Food Price Index](#) fell by 0.8 percent in the month of October 2016 (but did not change in seasonally adjusted terms). Food prices rose 0.6 percent in the year to October. Compared with the previous month, fruit and vegetable prices fell 5.7 percent (down 0.1 percent seasonally adjusted); meat, poultry, and fish prices rose 0.8 percent; grocery food prices had no overall change (but were down 0.1 percent seasonally adjusted); non-alcoholic beverage prices fell 1.2 percent; and restaurant meals and ready-to-eat food prices rose 0.1 percent. (There are no significant seasonal effects for the categories without a seasonal adjustment.)

Public Sector



★ According to Treasury's [Financial Statements of the Government of New Zealand](#) for the three months to 30 September 2016, core Crown tax revenue was \$523 million (3.1 percent) higher than forecast in the 2016 Budget Economic and Fiscal Update (BEFU). Corporate tax revenue was \$252 million or 11.8 percent above forecast, indicating that taxable profits for the tax year are likely to be higher than expected. GST was \$134 million (3.0 percent) above forecast due to higher spending than expected on housing and by overseas tourists. Overall core Crown revenue was consequently \$692 million or 3.8 percent higher than forecast. Core Crown expenses were \$94 million (0.5 percent) below forecast. As a result, the Operating Balance before Gains and Losses (OBEGAL) was

\$222 million in surplus, \$725 million better than forecast. The Operating Balance was a \$2.3 billion surplus, \$2.2 billion higher than expected. In addition to the better than forecast OBEGAL, this benefited from gains by the New Zealand Superannuation Fund which were \$1.5 billion above forecast, and similarly with ACC's investment fund: "Following the dip in global equity markets in late June these markets have recovered quite a bit. In addition, ACC's investment gains were around \$0.4b higher than forecast. These favourable results have arisen as a result of a high level of volatility in financial markets over the last few months". Net debt at 25.1 percent of GDP (\$63.1 billion) was \$1.7 billion better than the \$64.8 billion forecast. Gross debt at \$88.4 billion (35.1 percent of GDP) was \$0.2 billion more than forecast. The Crown's net (financial) worth was \$8.0 billion higher than forecast at \$91.6 billion.

- [District Health Boards](#) recorded combined deficits of \$18.7 million for the two months to August 2016. This is \$4.5 million worse than their plans. The Funder arms were in surplus by \$11.8 million, and Provider arms (largely their hospitals) in deficit by \$31.6 million. The Northern region was \$1.7 million behind plan with a deficit of \$0.9 million and Northland and Waitemata in deficit. The Midland region was \$2.2 million behind plan though a combined surplus of \$1.6 million due mainly to a \$2.4 million surplus at Waikato, but all of the others but Lakes in deficit. Central region was \$0.5 million behind plan with a combined \$8.3 million deficit and all in deficit including Capital and Coast at \$3.3 million, Hutt Valley at \$2.0 million and MidCentral at \$2.5 million. The Southern Region was on plan with a \$11.0 million deficit and all but Nelson Marlborough DHB in deficit, with Canterbury showing a \$8.2 million deficit and Southern \$2.9 million. In all only five of the 20 DHBs were in surplus. The DHB furthest ahead of plan was Waikato by \$2.4 million, and Capital and Coast was easily furthest behind, by \$8.2 million.
- [Local Government](#) recorded a 4.3 percent (\$95.1 million) rise in operating income and a 3.3 percent rise in operating expenditure (\$75.7 million) including a 0.3 percent fall in employee costs for the June 2016 quarter compared to March 2016. This resulted in an operating deficit of \$74.2 million in the June quarter, compared with a deficit of \$93.6 million in the March quarter, and deficits in all the quarters back to June 2007 with the exception of June 2010, all in seasonally adjusted terms. Note that the latest quarter results are provisional and seasonally adjusted figures are revised with each release.

Notes

- 1 For the Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) a figure under 50 shows the sector is contracting; above 50 shows that it is growing. Previous month's figures are often revised and may differ from those published in a previous Bulletin.

This bulletin is available online at <http://www.union.org.nz/economicbulletin184>.

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